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**WATER FACILITIES
EXTENSION AGREEMENT**

This Agreement is between Lucky Hills Water Company, an Arizona Corporation ("Company"), with offices at 206 South Cowan Ranch Road, Tombstone, Arizona 85638, and David B. McCartney ("Developer"), with offices at 1630 North Drive, Tombstone, Arizona 85638.

ARIZONA CORPORATION COMMISSION
DOCUMENT CONTROL**RECITALS**

- Company is a public service corporation within the meaning of Article 15, Section 2, of the Arizona Constitution, and is authorized to provide potable water service within portions of Cochise County, Arizona, in accordance with a Certificate of Convenience and Necessity ("CC&N") granted by the Arizona Corporation Commission ("Commission").
- Company is obligated to provide safe and affordable water service to the public.
- Company's water operations are governed by numerous federal and state statutes and regulations, and are subject to regulation by numerous federal and state agencies.
- Developer proposes to develop a 140-acre parcel, including 42 single-family home lots known as Walnut Valley Ranch ("Development"), described in Exhibit A and mapped in Exhibit B.
- Developer needs to design, construct, and install potable water facilities to provide water service to the Development ("Facilities"). Those Facilities include wells, storage, pumping equipment, treatment equipment, pipelines, valves, hydrants and related water distribution infrastructure. The Facilities complete description, including a schedule of materials, unit quantities, and cost estimates, is set forth in Exhibit C. The Facilities map is set forth in Exhibit D.
- The Facilities are required to provide water supply, storage, pressure, and delivery for the new service requested by Developer.
- Developer must obtain regulatory approvals before the Facilities can be built and serve the Development.
- After designing, permitting, constructing, and installing the Facilities, Developer wants to transfer the Facilities to Company.
- Although the Development is outside Company's CC&N, Company is willing to apply to the Commission to expand its CC&N to include the Development.

- So long as the Facilities are properly designed, permitted, constructed, installed, and approved by regulating authorities, Company believes accepting the Facilities and serving the Development promotes Company's and the public's interests, health, and welfare.

AGREEMENT

The parties agree as follows:

1.0 Developer's General Obligations

1.1 Developer will design, permit, purchase, transport, construct, test, install, connect, bond, secure approvals, and insure the Facilities at no cost to Company.

1.2 Developer must follow good utility practices and the applicable governmental rules, regulations, and policies when designing, permitting, constructing, installing, and connecting the Facilities.

1.3 Developer will establish that water is physically, continually, and legally available to meet the Development's projected 100-year water demand under Arizona Department of Water Resources ("ADWR") rules and policies.

1.4 Subject to Company approval, Developer will permanently transfer to Company:

1.4.1 Facilities; and

1.4.2 Property including fee simple title, easements, fixtures, as well as rights and privileges pertaining to property including access and use, water rights and claims, mineral, and utility rights ("Real Property Interests") reasonably required by Company to operate and maintain the Facilities.

1.5 Developer will transfer the Facilities and Real Property Interests to Company at no cost.

1.6 Upon execution of this Agreement, Developer will pay Company a non-refundable development plan review and administration fee of \$10,000 to compensate Company for assisting, coordinating, reviewing, inspecting, testing, and approving Facilities, as well as overhead costs and legal fees incurred by Company under this Agreement. If Company's costs related to this Agreement reasonably exceed \$10,000, then Company will notify Developer and Developer must approve additional expenses. If Developer fails to timely pay additional expenses, Company is not obligated to continue performance under this Agreement.

2.0 Company's General Obligations

2.1 If Developer has met its obligations, then Company will:

2.1.1 Promptly review, inspect, and, if appropriate, approve the Facilities;

2.1.2 Approve and accept the Facilities and the Real Property Interests reasonably required to operate and maintain the Facilities; and

2.1.3 Assist Developer secure necessary regulatory approvals, which includes executing notices of intent to serve and filing applications prepared by Developer with the Commission, ADWR, Arizona Department of Environmental Quality ("ADEQ"), and Arizona Department of Transportation.

2.2 After accepting the Facilities and Real Property Interests, Company will operate and maintain the Facilities.

3.0 Construction Timing

3.1 Developer estimates construction will start on March, 2007, and will be completed by June 2008.

3.2 This Agreement is void if Developer does not begin construction within 2 years from the date of this Agreement.

3.3 Developer may request Company to extend this Agreement for an additional year. That request must:

3.3.1 Be in writing;

3.3.2 State Developer's new proposed construction start date; and

3.3.3 Include a reasonable schedule to meet that date.

3.4 Company's approval of the request for extension will not be unreasonably withheld.

INITIAL PLANNING STAGE

4.0 Master Plan

4.1 Developer will prepare a water master plan report by a licensed engineer showing the proposed Facilities' sizes and approximate locations ("Master Plan"). This should include a hydraulic analysis, using a current version of Water CAD, or approved equal, in electronic form.

4.2 Developer will submit the Master Plan to Company for review and approval. Company will promptly review the Master Plan and issue, in writing, its review comments or approval, as appropriate. A Company-approved Master Plan will be incorporated into this Agreement as Exhibit E.

4.3 If Developer materially modifies the Master Plan, then Developer will prepare an amended Master Plan that details all changes to the Facilities. All Master Plan amendments will

be submitted to Company for approval. Company will promptly review Master Plan amendments and issue, in writing, its review comments or approval, as appropriate. Any Company-approved Master Plan amendments will be incorporated into this Agreement.

4.4 If Developer begins building Facilities before Company approves the Master Plan, this construction will be at Developer's sole risk and subject to repair, alteration, or reconstruction at Developer's expense as directed by Company.

5.0 Facilities Plans and Specifications

5.1 Developer will prepare Facilities plans and specifications by a licensed engineer registered in Arizona consistent with the Master Plan ("Plans and Specifications").

5.2 Developer will submit the Plans and Specifications to Company for approval. Company will promptly review the Plans and Specifications and issue, in writing, its review comments or approval, as appropriate.

5.3 If the Plans and Specifications are not approved by Company, then Developer will modify the Plans and Specifications to address Company's comments and resubmit the Plans and Specifications for Company's review and approval.

5.4 If Developer begins Facilities construction before Company approves the Plans and Specifications, this construction will be at Developer's sole risk and subject to repair, alteration or reconstruction at Developer's expense as directed by Company.

6.0 Plats

6.1 Along with the Master Plan, Developer must submit to Company a site plan or preliminary plat locating reasonably sized land parcels dedicated to water utility uses, rights-of-way, easements, and similar land uses;

6.2 Developer has an ongoing duty to promptly submit to Company:

6.2.1 Any original, revised, or amended preliminary plat;

6.2.2 Address maps; and

6.2.3 Any similar items reasonably requested by Company.

7.0 Phasing

7.1 Developer may construct the Facilities in phases as long as:

7.1.1 Proposed phasing is described in the Master Plan and Exhibit F; and

7.1.2 Company approves plans showing proposed phasing as set forth in Exhibit F.

7.2 Phased-in Facilities must adequately meet the water demand created by the Development phase.

7.3 All approval and acceptance procedures set forth in this Agreement apply separately to each Development construction phase.

WELL AND WATER TESTING STAGE

8.0 Water Production

8.1 Developer will establish that water is physically, continually, and legally available to meet the Development's projected 100-year water demand under ADWR rules and policies.

8.2 Developer will construct at least 2 wells. The wells must be able to produce enough potable water to meet or exceed the requirements set forth by ADEQ rules and agreed upon by Company.

8.3 Each well must provide a minimum sustained pumping capacity of 15 gallons per minute ("gpm").

8.4 After drilling and casing a well, Developer will test pump the well to determine its sustained pumping capacity by performing the following tests:

8.4.1 A minimum 8 hour step-rate aquifer test;

8.4.2 A minimum 24 hour constant-rate aquifer test; and

8.4.3 A minimum 8 hour recovery test.

8.5 If any well's sustained pumping capacity is below 15 gpm, then Company may require Developer to abandon the well in accordance with ADWR rules at no cost to Company.

8.6 If Company determines that a well is usable as a potable water supply, Company will notify Developer to proceed with equipping the well.

9.0 Water Quality

9.1 After drilling and casing a well, Developer will take water samples from the well to determine new source water quality and submit those samples to ADEQ for drinking water source approval.

9.2 Developer must promptly disclose all water quality data and documents to Company.

9.3 Developer will provide for treatment either through blending according to applicable rules or through using treatment equipment approved by Company if a water contaminant exceeds 80% of the maximum permissible level for a contaminant in drinking water as promulgated by the United States Environmental Protection Agency or ADEQ.

9.4 If Company reasonably determines that constructing and operating necessary treatment equipment is not prudent, then Company may require Developer to abandon the well according to ADWR rules at no cost to Company.

FACILITY CONSTRUCTION STAGE

10.0 Construction Risk and Insurance

10.1 Before Developer transfers the Facilities and Real Property Interests to Company, Developer retains all risk of loss of Facilities and Real Property Interests.

10.2 Before beginning Facilities construction, Developer will furnish Company with proof of insurance coverage in the following types and amounts:

10.2.1 Worker's Compensation Insurance and Occupational Disease Disability Insurance in the benefit amounts required by law.

10.2.2 Commercial General Liability Insurance, including operations and protective liability coverage, with limits of not less than \$2,000,000 combined single limit for bodily injury (including death) and property damage. If blasting is required, Developer's insurance will specifically cover that risk. Company will be named as an additional insured.

10.2.3 Comprehensive Automobile Liability Insurance covering all owned, non-owned, hired and leased vehicles with limits of at least \$2,000,000 combined single limit for Bodily Injury and Property Damage Liability for each occurrence.

10.3 Developer will retain the insurance coverage described above until construction is complete.

11.0 Inspection and Testing

11.1 Developer must notify Company at least 3 business days before any water quality tests, any Facilities tests, or any Facilities inspections.

12.0 Construction Water

12.1 If Company determines its available water supply exceeds its customer demand, then Company will provide Developer water for construction uses within the Development.

12.2 Developer must meter all water taken from Company's system and Company will charge Developer for that water according to the applicable rate.

13.0 System Integration

13.1 Developer acknowledges that Company has the right to, and may, connect its existing or future water infrastructure to the Facilities.

13.2 If requested by Company, Developer will oversize the Facilities above the sizing or capacity required by the Master Plan.

PRETRANSFER STAGE

14.0 Regulatory Authorizations for Facilities.

14.1 Prior to Operational Acceptance (defined below), Developer will obtain, or cause to be obtained, at no cost to Company, the following governmental permits, approvals, and authorizations, if applicable, for the Facilities:

14.1.1 Certificate of Approval to Construct;

14.1.2 Zoning clearances, agricultural clearances, and land use permits;

14.1.3 Construction permits;

14.1.4 Discharge permits and storm water pollution prevention plan approval;

14.1.5 Drinking water source approval;

14.1.6 New public water system approval;

14.1.7 Adequate water supply report or designation of adequate water supply;

14.1.8 Certificate of Approval of Construction; and

14.1.9 Any other required permits, approvals, or authorizations from regulatory agencies.

14.2 Company will use its reasonable best efforts to assist Developer to obtain any required authorizations necessary for Company to provide water services to Development.

14.3 If Developer begins building Facilities before obtaining the regulatory authorizations, then that construction will be at Developer's sole risk and subject to repair, alteration or reconstruction at Developer's expense to achieve regulatory compliance.

TRANSFER STAGE

15.0 Land Transfer.

15.1 Before transferring the Facilities to Company, Developer must convey Real Property Interests where Facilities are located to Company.

15.2 Anywhere wells, storage, pumping equipment, treatment equipment, and similar Facilities will be located, Company must receive free and clear title by Special Warranty Deed to the land. These lands are mapped and legally described in Exhibit G.

15.3 Where only water transmission infrastructure, such as pipelines and laterals, will be located, Developer must demonstrate that Company will have the continuing right to operate, repair, and maintain transmission infrastructure on the land. These lands may be either:

15.3.1 Publicly dedicated streets, easements, or other public rights-of-way; or

15.3.2 Private easements or right-of-way, free from all liens and security interests, granted to Company as necessary for Company to install, access, operate, repair, and maintain the transmission infrastructure.

15.4 Private easements or rights-of-way must be:

15.4.1 Free of physical encroachments, encumbrances, or obstacles;

15.4.2 May require stabilized roadway access; and

15.4.3 At least 12 feet wide.

15.5 Company must be able to legally access all Facilities sites from public roadways. Easements or rights-of-way must accommodate heavy equipment used to operate, repair, and maintain Facilities.

16.0 Operational Acceptance.

16.1 Before Company will accept the Facilities and Real Property Interests, Developer must provide Company the following:

16.1.1 Lien waivers and releases from contractors, subcontractors, and vendors for all Facilities' materials, equipment, supplies, and construction;

16.1.2 Receipts, showing amounts paid by Developer to all contractors, subcontractors, and vendors for all Facilities' materials, equipment, supplies, labor, and other costs;

16.1.3 "As-built" drawings on 4-mil Mylar, certified as to correctness by an engineer registered in the State of Arizona;

16.1.4 Documents confirming the Facilities transfer to Company;

16.1.5 An executed warranty deed transferring the Real Property Interests to Company;

16.1.6 Documents showing the Real Property Interests and Facilities are free and clear of liens or other clouds on the title, except those specifically accepted by Company;

16.1.7 Phase One Environmental Assessment, showing that the Real Property Interests contain no unreasonable amount of contaminants.

- 16.1.8 All Certificates of Approval to Construct;
- 16.1.9 Zoning clearances, agricultural clearances, and land use permits;
- 16.1.10 All construction permits;
- 16.1.11 Discharge permits and storm water pollution prevention plan approval;
- 16.1.12 All Certificates of Approval of Construction;
- 16.1.13 Drinking water source approval;
- 16.1.14 New public water system approval;
- 16.1.15 Adequate water supply report or designation of adequate water supply;
- 16.1.16 Capacity development approval; and
- 16.1.17 Any other required permits, approvals, or authorizations from regulatory agencies.

16.2 If Company has determined that the Facilities have been constructed according to the approved Plans and Specifications and will operate satisfactorily, then Company will accept the Facilities, subject to further inspection by Company and Developer's correction of any outstanding punch list items ("Operational Acceptance").

16.3 Company will provide Developer prompt written notice that states Company has issued Operational Acceptance and identifies all punch list items Developer must remedy.

16.4 Upon Operational Acceptance, Company will serve potable water to the Development or Development Phase, as applicable. The Facilities will not be placed in service until Company has issued its Operational Acceptance.

16.5 Following Operational Acceptance, Developer must promptly repair all damage to the Facilities caused by its activities within Development.

17.0 Final Acceptance

17.1 Within 1 year following Operational Acceptance, a final inspection will occur. If during final inspection any uncorrected or new punch list items are identified, then Developer must correct those defects and deficiencies before final acceptance is issued.

17.2 Company will accept the Facilities in writing once Developer has:

- 17.2.1 Met all Operational Acceptance requirements;

- 17.2.2 Completed Facilities construction, which includes satisfying all punch list item requirements;

17.2.3 Paid all Company fees; and

17.2.4 Completed final grade adjustments.

18.0 Refunds and Reimbursements

18.1 Company will refund to Developer as an advance in aid of construction any additional Facilities' material costs attributable to Company's written request to oversize Facilities.

18.2 If Developer is entitled to a refund, then Company will refund 10% of its gross annual revenues derived from water sales to customers served by the Facilities for the time period specified in paragraph 18.3.

18.3 If Developer is entitled to a refund, then there will be 10 consecutive refund years. Refund year 1 will begin on July 1 after the initial Operational Acceptance date and will end on the next June 30. Refund years 2 through 10 will each date from July 1 to June 30. Each refund year Company will make annual refund payments to Developer by August 31.

18.4 No refund is available prior to Operational Acceptance, which requires Developer to submit to Company receipts showing amounts paid by Developer to all contractors, subcontractors, and vendors for all Facilities' materials, equipment, supplies, labor, and other costs. Developer must furnish invoices to Company to receive the refund.

18.5 Total refund amounts cannot exceed the total amounts advanced by Developer. Any balance remaining at the end of the 10 year refund period is nonrefundable. No interest will be owed on any amount advanced.

18.6 If Company, in its discretion, connects water service lines of customers outside the Development to the Facilities, then Company will refund 10% of its gross annual revenues derived from water sales to those customers for refund years 1 through 10 described in paragraph 18.3 and under the same terms described in paragraphs 18.4 through 18.5.

ONGOING WATER SERVICE PROVISIONS

19.0 Water Service

19.1 Company will provide water service to the Development once:

19.1.1 Company has issued Operational Acceptance of the Facilities; and

19.1.2 ADEQ has issued its Approval of Construction.

19.2 Company will use its reasonable best efforts to maintain satisfactory and continuous service, but does not guarantee a continuous water service.

19.3 Company is not liable for damages occasioned by: (a) water service interruptions; (b) failures to commence service; (c) unsatisfactory service; or (d) any act or failure to act arising caused by:

19.3.1 Act of God;

19.3.2 Public enemy, strike, riot, or war;

19.3.3 Accident, fire, or explosion;

19.3.4 Shipping delays;

19.3.5 Order or judgment by a court, commission, or tribunal having jurisdiction; or

19.3.6 Any other act or thing reasonably beyond its control or incident to interruptions necessary for repairs or changes in Company's production or water system, including Facilities.

20.0 Fire Protection

20.1 Company does not warrant, guarantee, or represent that the water utility services it provides will comply with any fire-protection requirements.

GENERAL PROVISIONS

21.0 Assignment

21.1 Neither Company nor Developer may assign its rights or obligations under this Agreement without the other party's prior written consent. This consent may be withheld only for good cause.

22.0 Binding Agreement

22.1 This Agreement binds, and inures to the benefit of, the parties, and their respective legal representatives, administrators, executors, agents, successors, and assigns.

23.0 Applicable Law

23.1 Arizona law governs this Agreement and its performance is subject to regulation by the State of Arizona as well as federal, state, and local regulatory agencies with jurisdiction.

24.0 Indemnification

24.1 Developer indemnifies, defends and holds harmless (a) Company, its officers, directors, agents, and employees harmless (b) from and against all claims, damages, costs, expenses, penalties, assessments, attorneys' fees, and court costs (c) that it or they may be subjected by reason of injury, death, loss, claim, penalty, assessment, or damage (d) caused or contributed to

by active or passive negligence of Developer, its agents, servants, employees, contractors or subcontractors (e) relating to this Agreement.

24.2 If any suit or other proceeding is brought on this account, Developer will assume the defense at Developer's expense and will pay all judgments rendered therein.

24.3 The foregoing Developer's indemnity does not cover any negligent or wrongful acts by Company, its officers, directors, agents, or employees.

25.0 Waivers

25.1 Either party may waive any provision in this Agreement intended for its benefit.

25.2 Any waiver must be in writing.

25.3 No waiver of a provision will operate to waive any other provision.

25.4 If either party fails to require the other to perform any term of this Agreement, that failure does not prevent the party from later enforcing that term.

26.0 Communications

26.1 Communications under this Agreement should be should be addressed as follows:

Company:

Lucky Hills Water Company
PO Box 309
Tombstone, Arizona 85638

Developer:

David B. McCartney
1630 North Drive
Tombstone, Arizona 85638

27.0 Address Changes

27.1 A party changing their address will notify the other party in writing.

28.0 Agents

28.1 Company is not an agent for Developer and will not incur any costs or expenses on Developer's behalf. Developer is not an agent for Company and will not incur any costs or expenses on Company's behalf.

29.0 Headings and Counterparts

29.1 The headings in this Agreement are for reference purposes and do not limit or define any provision.

30.0 Further Documentation

30.1 Each party agrees in good faith to execute any additional documents as may be necessary or appropriate to fully carry out the intent and purpose of this Agreement.

31.0 Counterparts

31.1 This Agreement may be executed in counterparts.

32.0 Entire Agreement

32.1 This Agreement contains the entire understanding among the parties. This Agreement may be amended only by an instrument in writing signed by all parties. All amendments to this Agreement must be in writing and signed by the Parties.

Signed by the parties as of Dec 7, 2006:

Company

Lucky Hills Water Company

Developer

David B. McCartney

By: Robert E. Cover

By: David B. McCartney

Its: Owner

Its: Owner/Developer

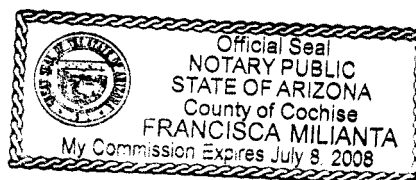
STATE OF Arizona
County of Cochise) ss.

The foregoing instrument was acknowledged before me on Dec. 7, 2006 by David B. McCartney owner/developer of McCartney properties.

Francisca Miliana
Name

Notary Public / Escrow officer
Title

My Commission expires: 7/8/08



STATE OF ARIZONA)
) ss.
County of COCHISE)

The foregoing instrument was acknowledged before me on Dec 11, 2006 by
Robert E. Cowan, owner of LuckyHus Water Co.

Leslie S. Gaskill

Name

Notary

Title



My Commission expires: April 21, 2009

LIST of REQUIRED EXHIBITS
(all exhibits are to be 8-1/2 x 11)

- EXHIBIT A - Development Legal Description (prepared by engineer)
(This needs to be stamped by a professional engineer and state the total acreage at the bottom of the legal description.)
- EXHIBIT B - Development Map (prepared by engineer)
(This needs to show bearings and distances for the property boundary)
- EXHIBIT C - Facilities Description and Cost Estimate (prepared by engineer)
(includes wells, tanks, booster stations, and pipelines)
- EXHIBIT D - Facilities Map (prepared by engineer)
- EXHIBIT E - Master Plan
- EXHIBIT F - Development Phases Map and Associated Facilities Phases
- EXHIBIT G - Legal Description and Map Real Property to be Conveyed to Company